

# **ON VALUE ADDED TAX (VAT) REFUND, 2015-2016**

**INVESTMENT COUNCIL MEETING**

**Tirana, 23 November 2016**

# CONTENT

I.CONTEXT, OBJECT, METHODOLOGY

II.FINDINGS & RECOMMENDATIONS

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# I. CONTEXT

**Delays for a long time** for the VAT refund, have been considered and perceived as bureaucratic from the business community until mid 2013.

Refund on selective basis, **corruptive practices and conditioned** by the tax administration plan to meet the revenue plan.

**Abusive schemes** with the VAT refund have been detected by the tax administration after 2013, about 116 cases of tax fraud and fiscal evasion have been reported to Public Prosecutor during September 2015-July 2016 (2016 EU Progress Report).

**Fast payment of accumulated arrears, helped restore confidence in state instruments, especially to alleviate the restrictions to the private sector.**

**VAT non-refunded amounts in years,** create a chain of debts for the business, especially exporters, toward suppliers and banks, increase the lack of trust toward the State and **limited financial resources for investment.**

# I.CONTEXT- REACTIONS FROM THE BUSINESS

- *There is no point in applying for a REFUND* (survey – *LACK OF TRUST* in 36% of those who have not applied);
- *FAILURE TO RESPECT DEADLINES* regardless of the level of exporters;
- Tax administration has its *REVENUE PLAN*, and impose *FINES, with the tendency to reduce the refundable VAT amount (investment in energy)*;
- *No FEEDBACK* from Tax Inspection, *is the VAT Risk Module effective?* If yes, why we have so many inspections?
- *Non-return of customs guarantee* – An issue on its own, *Informality at “END USERS”* does not allow fiscal equipment;
- *Transfer of credit* within taxes e.g. to cover profit tax instalments, *Customs Procedures* for machinery, customs codes for import.

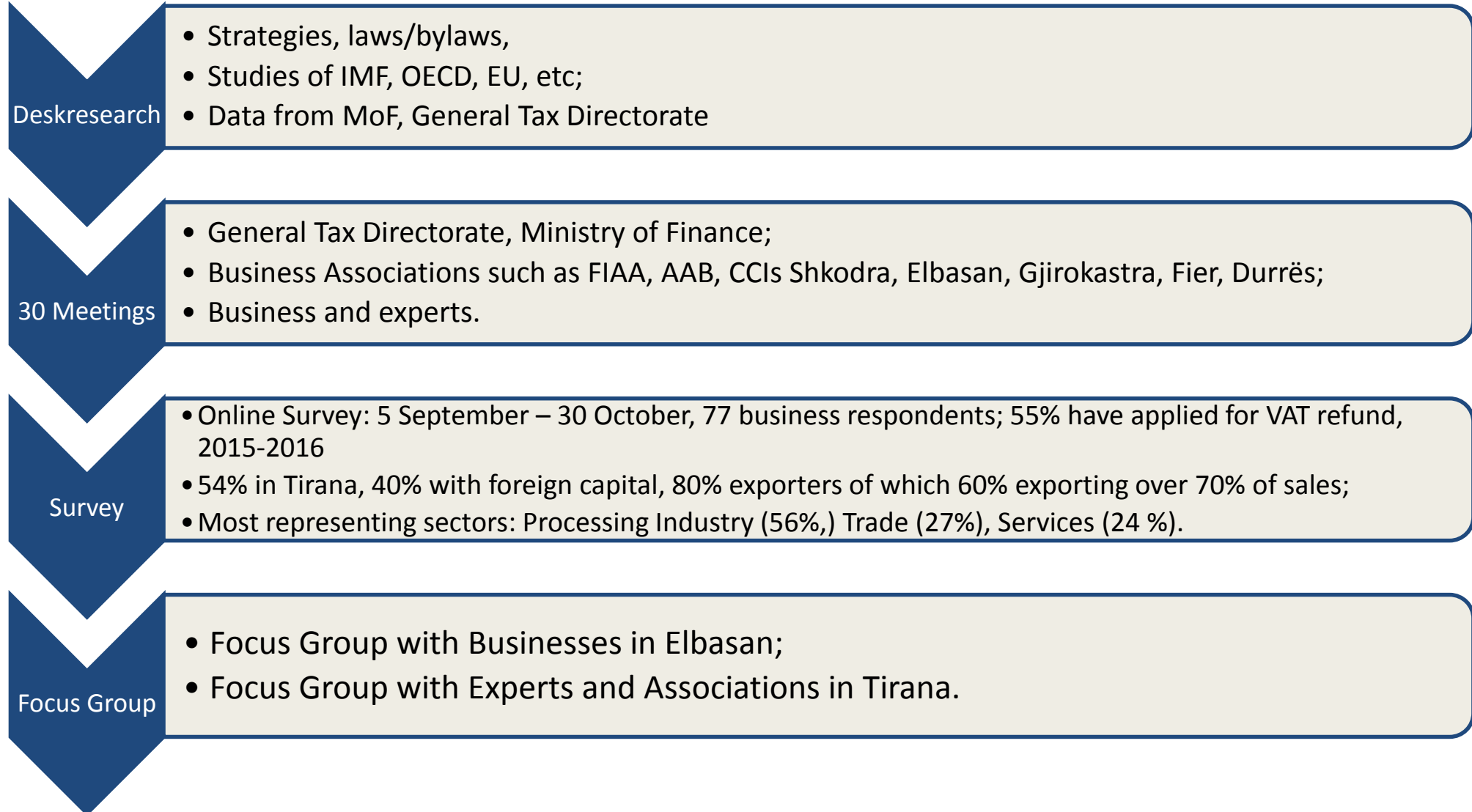
# I. OBJECT OF THE ANALYSIS

1. To promote and structure the debate, consulted with the business;
2. To take into consideration the voice of the business;
3. To submit concrete and constructive recommendations (focus on main problems: non-registration, evasion, labour in the black market).

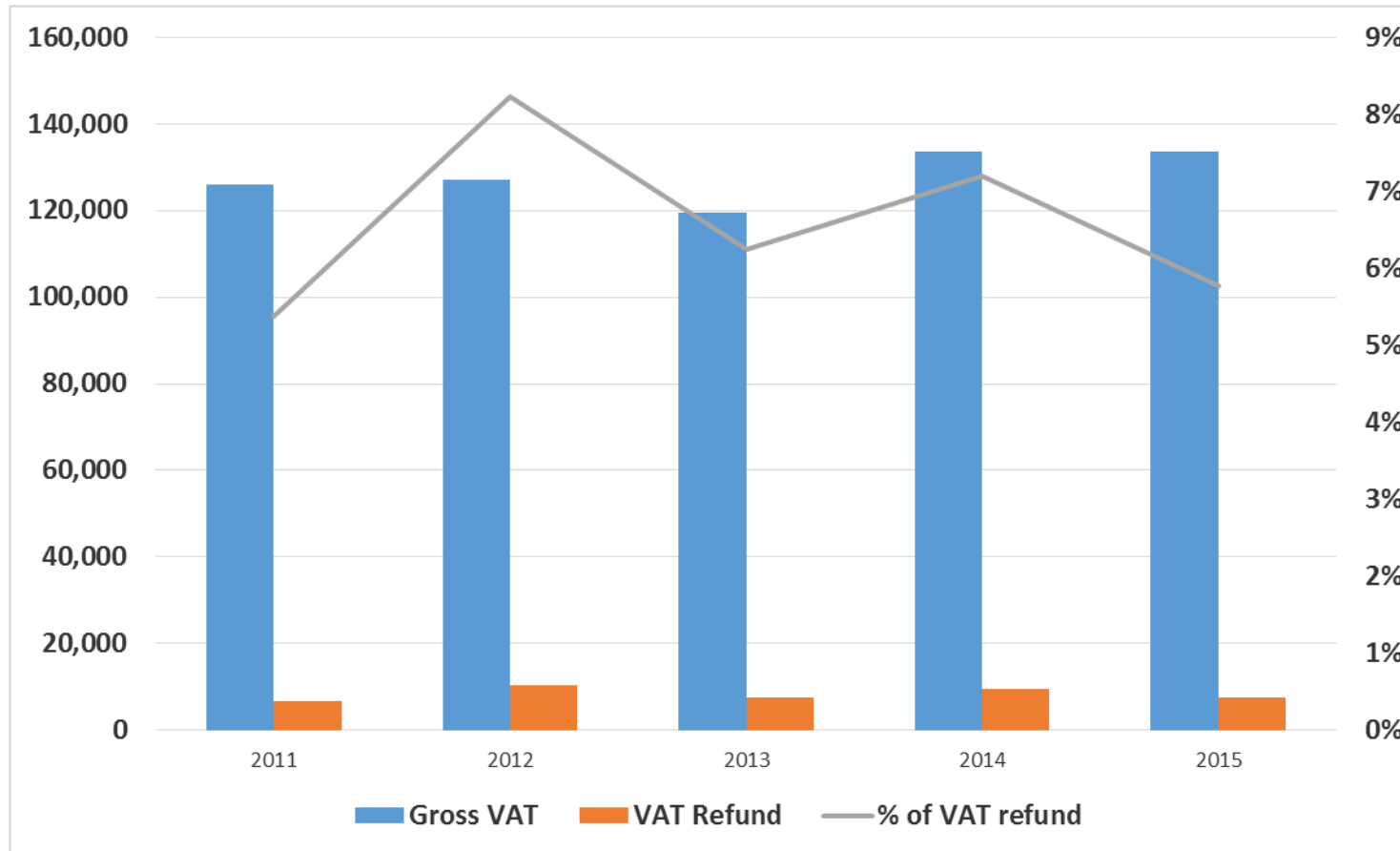
☐ *Performance of current VAT Refund Model 2015-2016*

☐ *Legal amendments & Business Experience*

# I. METHODOLOGY



# I. CONTEXT: PROGRESS OF VAT REFUND, 2011 - 2015



Source: [www.financa.gov.al](http://www.financa.gov.al)

Paid Arrears – until 31  
December 2015.

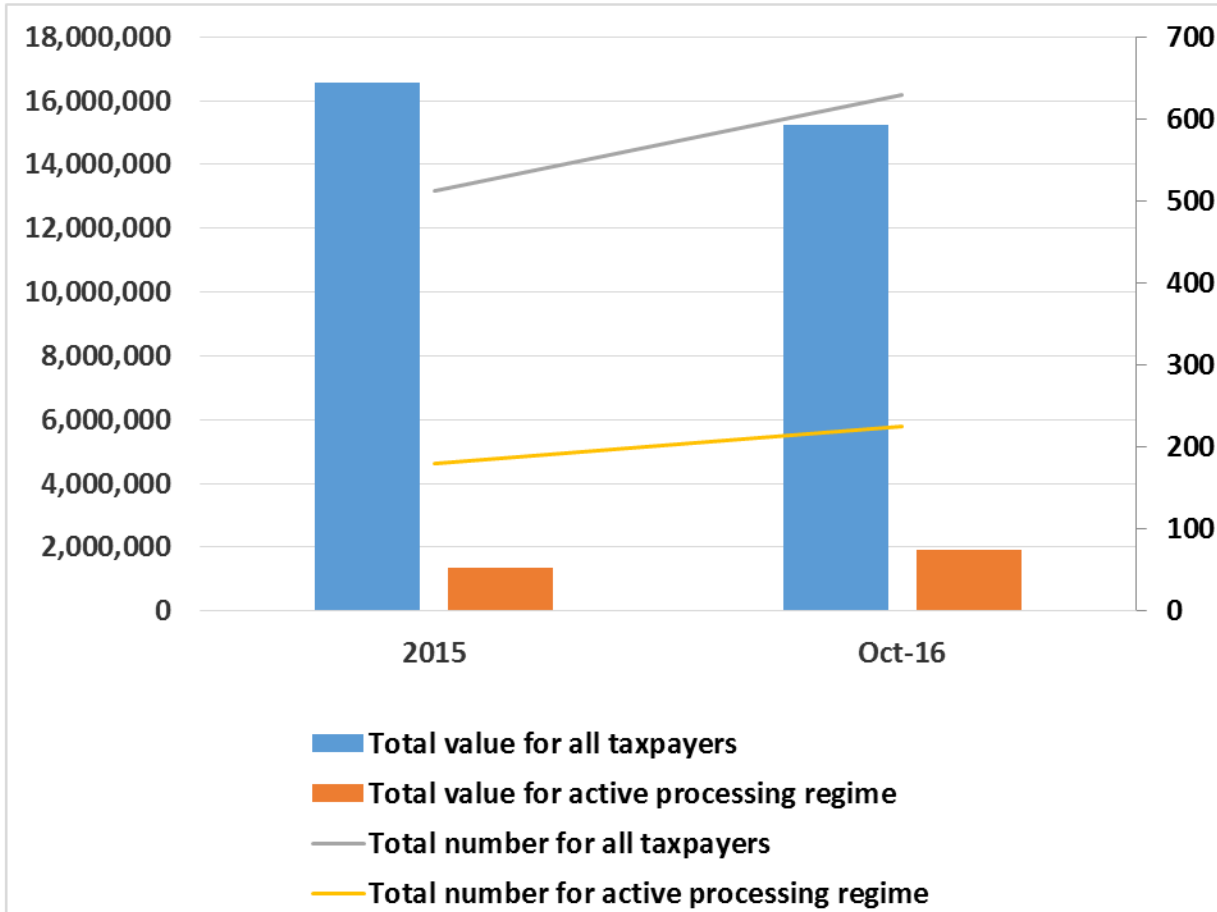
VAT Refund

**18 Billion Lekë**

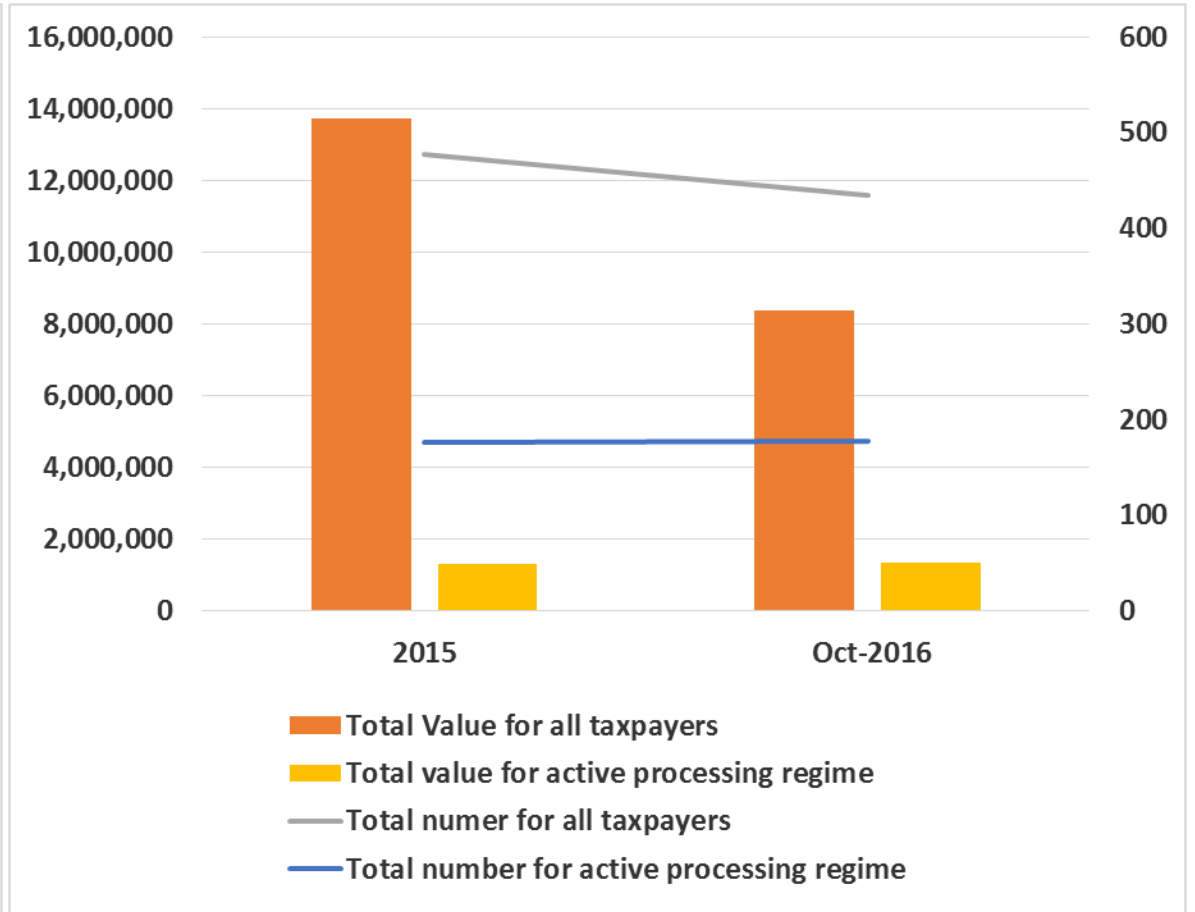
# I. CONTEXT: VAT REFUND REQUESTS AND PAYMENTS

(No. & value for all taxpayers and Active Processing Regime Businesses, 2015 & 2016 (till October)).

*Requests for VAT refund in number and value (000 ALL)*



*Actual VAT Refund in number and value (000 ALL)*





# I. CONTEXT: VAT REFUND, Deadlines and Procedures

## Non-exporting taxpayers

1. Recoverable VAT amount carried forward for 3 consecutive months
2. VAT amount requested exceeds 400,000 ALL

Exporters are entitled to request reimbursement when the recoverable VAT amount is over 400,000 ALL

### AUTOMATIC 30 DAYS

1. >70% Exports
2. More than 1 year of export activity
3. Customs declaration for export
4. Do not have outstanding payments for contributions

**NO RISK/NO CONTROL**

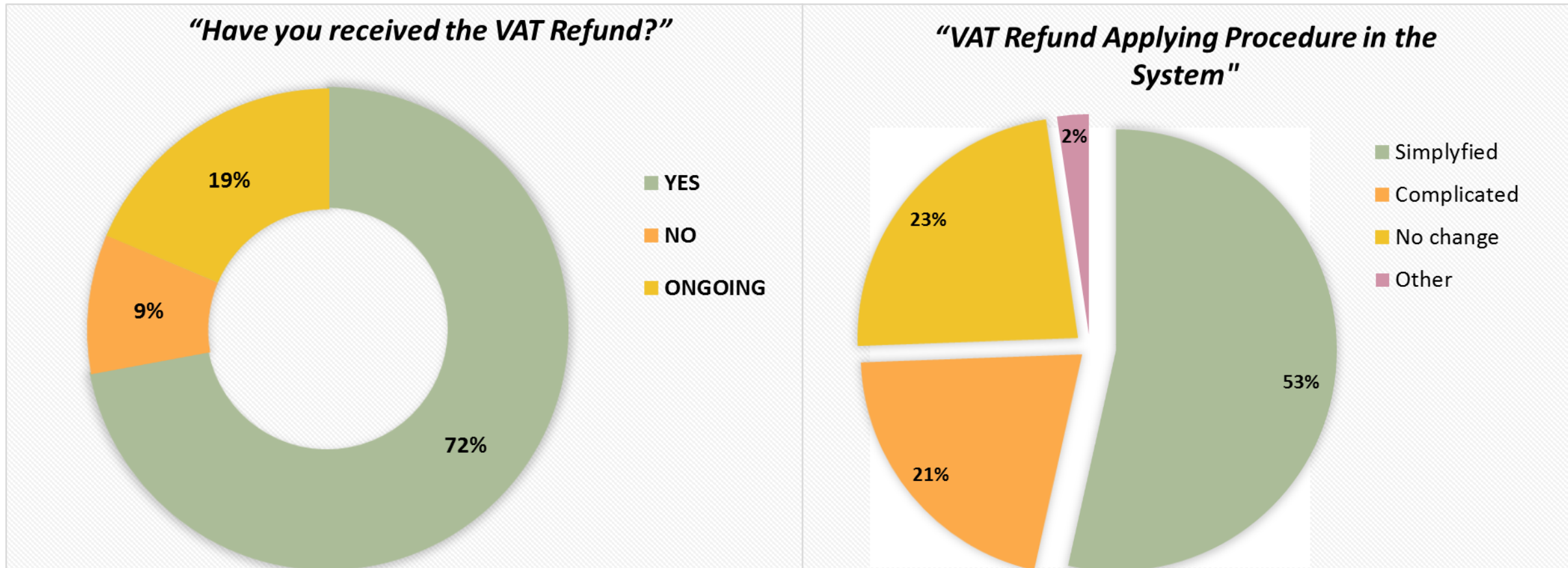
### RISK ANALYSIS 30 DAYS

50%-70% Export

### RISK ANALYSIS 60 DAYS

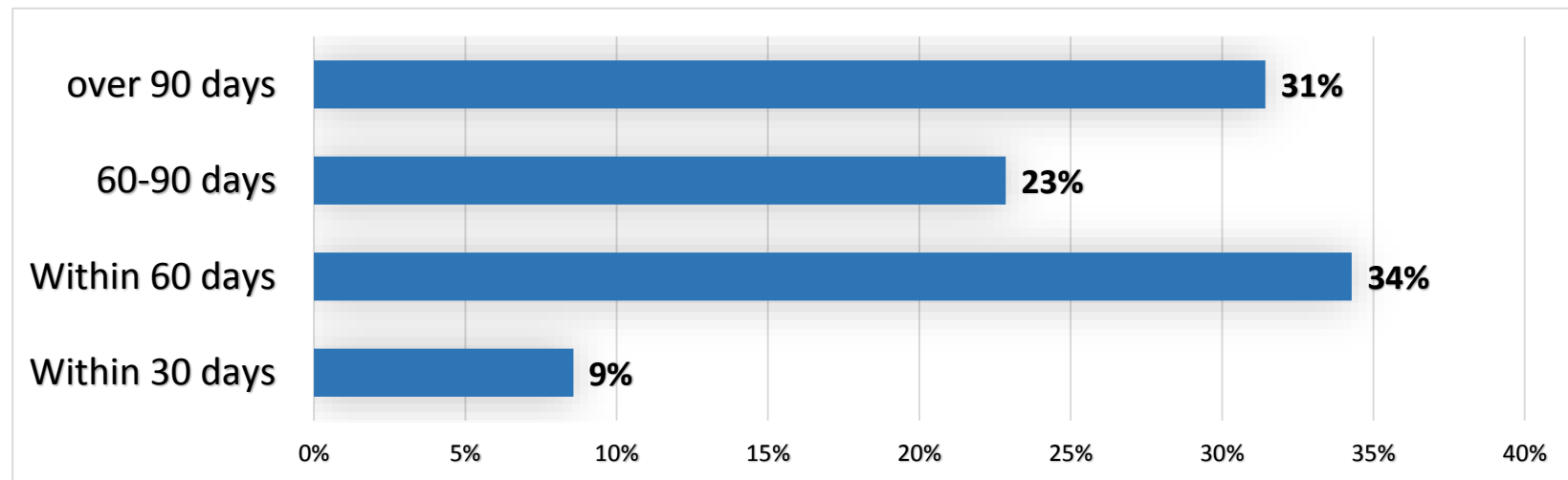
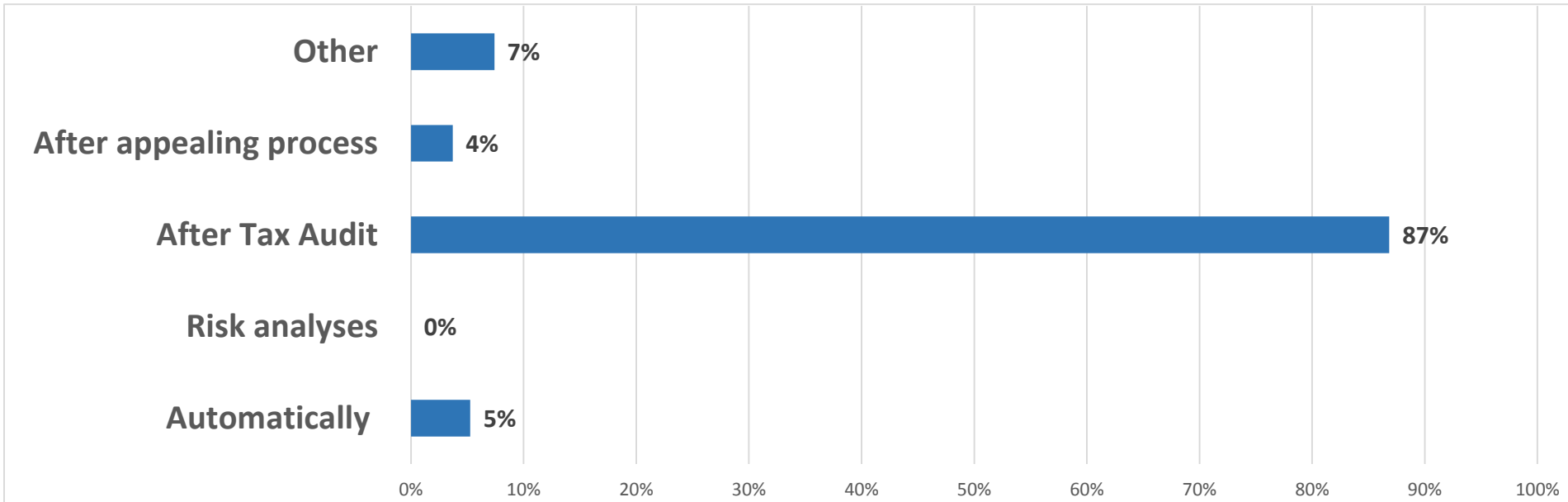
<50% Export & Taxpayers

## II. MAIN FINDINGS – SURVEY “ON VAT REFUND”

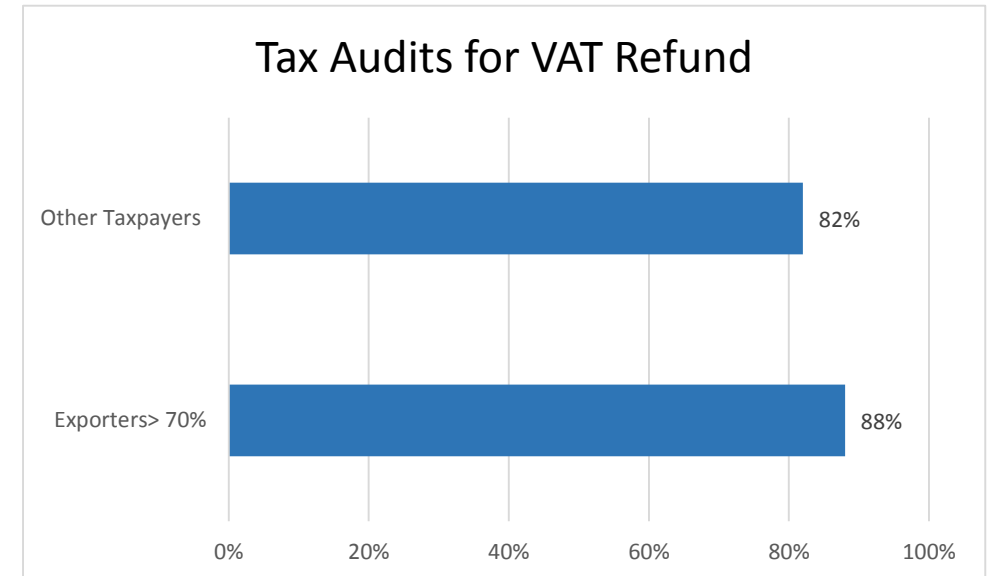
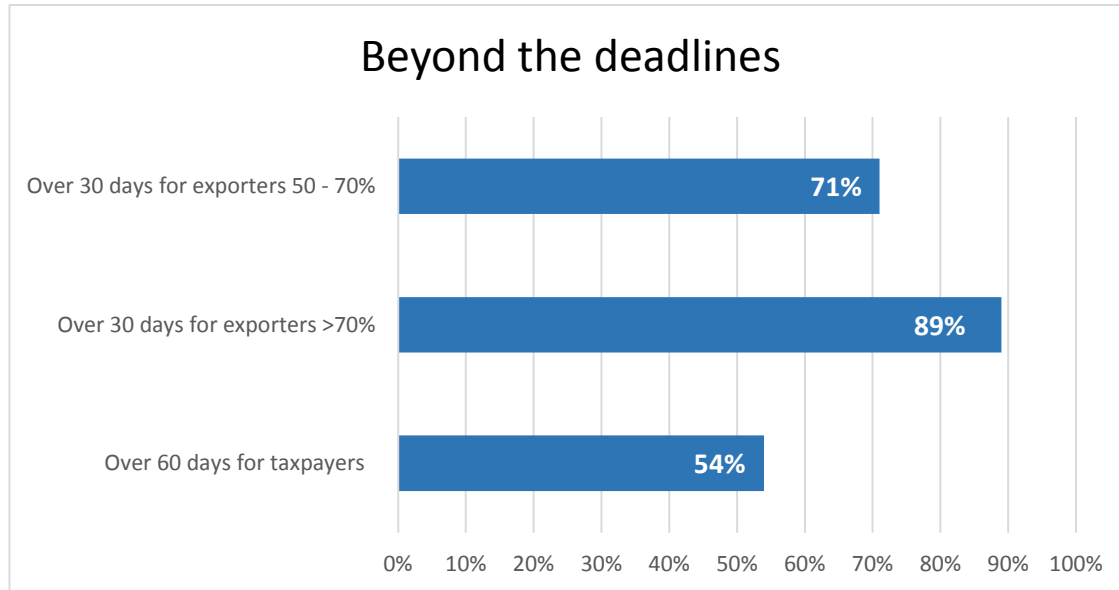


**72 % confirm to have received the VAT refund;**  
***54% confirm the facilitation of procedure for VAT refund application***

## II. MAIN FINDINGS – SURVEY, “When is received the VAT Refund?!”



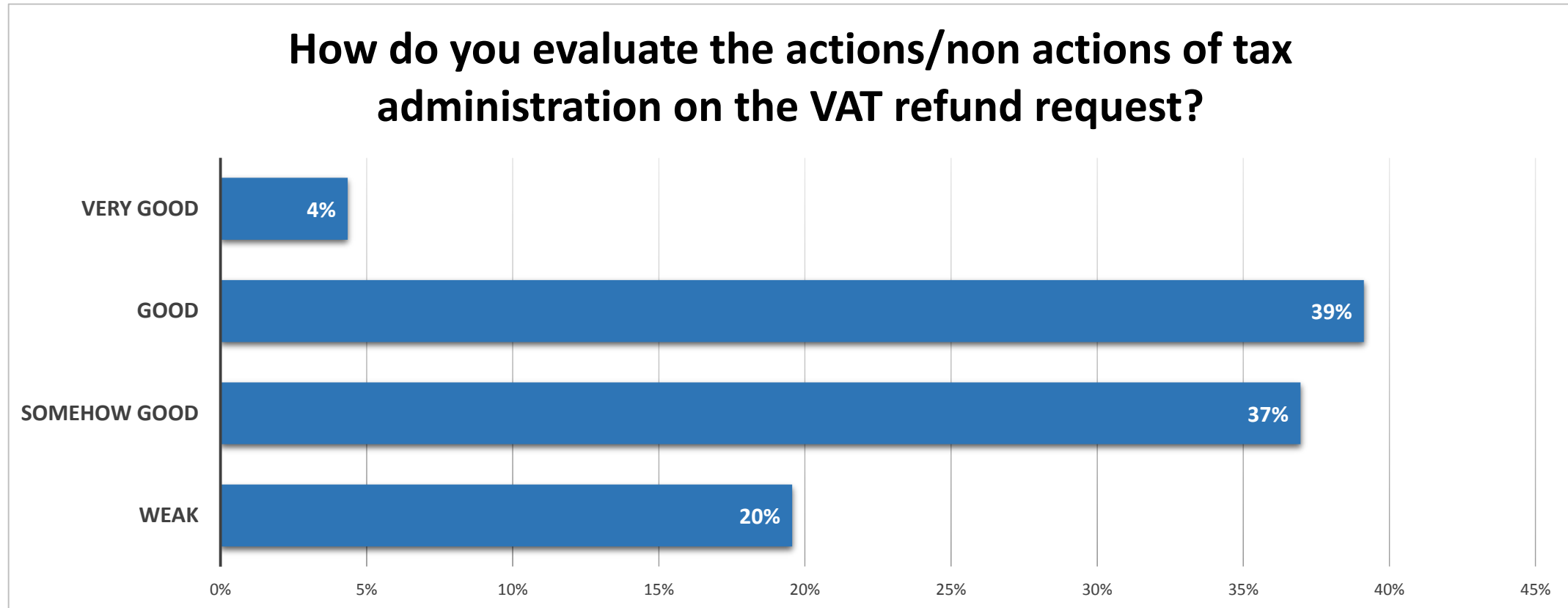
## II. MAIN FINDINGS – SURVEY, Deadlines and Audits



*According to Survey:*

- **Deadlines are not respected** in most of the cases for the VAT refund requests by exporters.
- The majority of the taxpayers requesting a VAT refund, including exporters above 70% of sales have gone **through a tax audit**.

## II. MAIN FINDINGS– SURVEY ON TAX ADMINISTRATION



*It is noted from the answers in the Survey **a moderate evaluation on the performance of the administration** between good and somehow good. However there is a considerable number (of 20%) that evaluate as weak the work of tax administration.*

## III. RECOMMENDATIONS – ON REFUND PROCESS, DEADLINES

FINDINGS	RECOMMENDATIONS
<p><b>Enhance accountability for refund (2015-2016), but a challenge respecting the refund deadlines</b></p> <ul style="list-style-type: none"> <li>- Refund beyond 30 days for exporters over 50% of sales</li> <li>- Refund beyond 60 days for the other taxpayers</li> </ul>	<p><b>Recommendation 1. Respect deadlines set forth in the applicable legal framework.</b></p> <ul style="list-style-type: none"> <li>- Efficient risk analysis criteria, as in Recommendation No. 2.</li> <li>- Obligatory interest on late VAT refund for tax administration to businesses, in accordance with Article no. 76 of Law No. 9920.</li> </ul>

# III. RECOMMENDATIONS - ON REFUND PROCESS, PROCEDURES

FINDINGS	RECOMMENDATIONS
<p><b>Current procedures of VAT Refund – considered as simplified, but:</b></p> <ul style="list-style-type: none"> <li>- Very few automatic refunds</li> <li>- High number of inspections: efficiency of the risk system</li> <li>- VAT Surplus over 400,000 ALL acknowledged as recoverable but not refundable.</li> </ul>	<p><b>Recommendation 2. Ease the procedural burden for the ta administration and business</b></p> <ul style="list-style-type: none"> <li>- Efficient application of the risk system to enable a reduction of the number of controls.</li> <li>- Collaboration /exchange of information should be strengthened between GTD and GCD regarding risk assessment of VAT refund.</li> <li>- Removal of VAT refund audit when the business has shifted within a certain period of time, e.g. 1 year to full/thorough control.</li> <li>- To avoid practices when the VAT amounts are acknowledged as recoverable to the businesses, but not refundable on the basis of unreasonable doubts or not grounded on the legal framework.</li> </ul>

### III. RECOMMENDATIONS - ON REFUND PROCESS, CRITERIA

#### FINDINGS

Criteria for the VAT Refund considered as harmonized, but still to be updated the secondary legislation.

#### RECOMMENDATIONS

**Recommendation 3. Transparency over internal procedures in addressing VAT refund cases**

**Update of Instruction of the MoF No. 24. date 02.09.2008**

It is suggested preparation and publication of an internal document for the tax administration – ***Regulation on Vat Refund***



### III. RECOMMENDATIONS – ON THE RELATIONSHIP, PUBLIC ADMINISTRATION, BUSINESS

#### FINDINGS

**Improve the relationship public administration – business (over 40% of the respondents rate as “somewhat good” and 31% as “good”) BUT:**

- Hesitation to apply for VAT refund: also for cases when there is enough VAT recoverable amount;
- Audits aim to reduce as much as possible the VAT recoverable amount to be refund to businesses, as in the case of investments in energy;
- Insufficient information and not in time to the business due to the dynamics of legal changes.

#### RECOMMENDATIONS

**Recommendation 4.** Improve information offered by GTD through an interactive website, for business to enable the fiscal education of taxpayers and increase transparency.

**Recommendation 5.** Budget plans should not condition tax administration decision-making for refund delays on recoverable VAT.

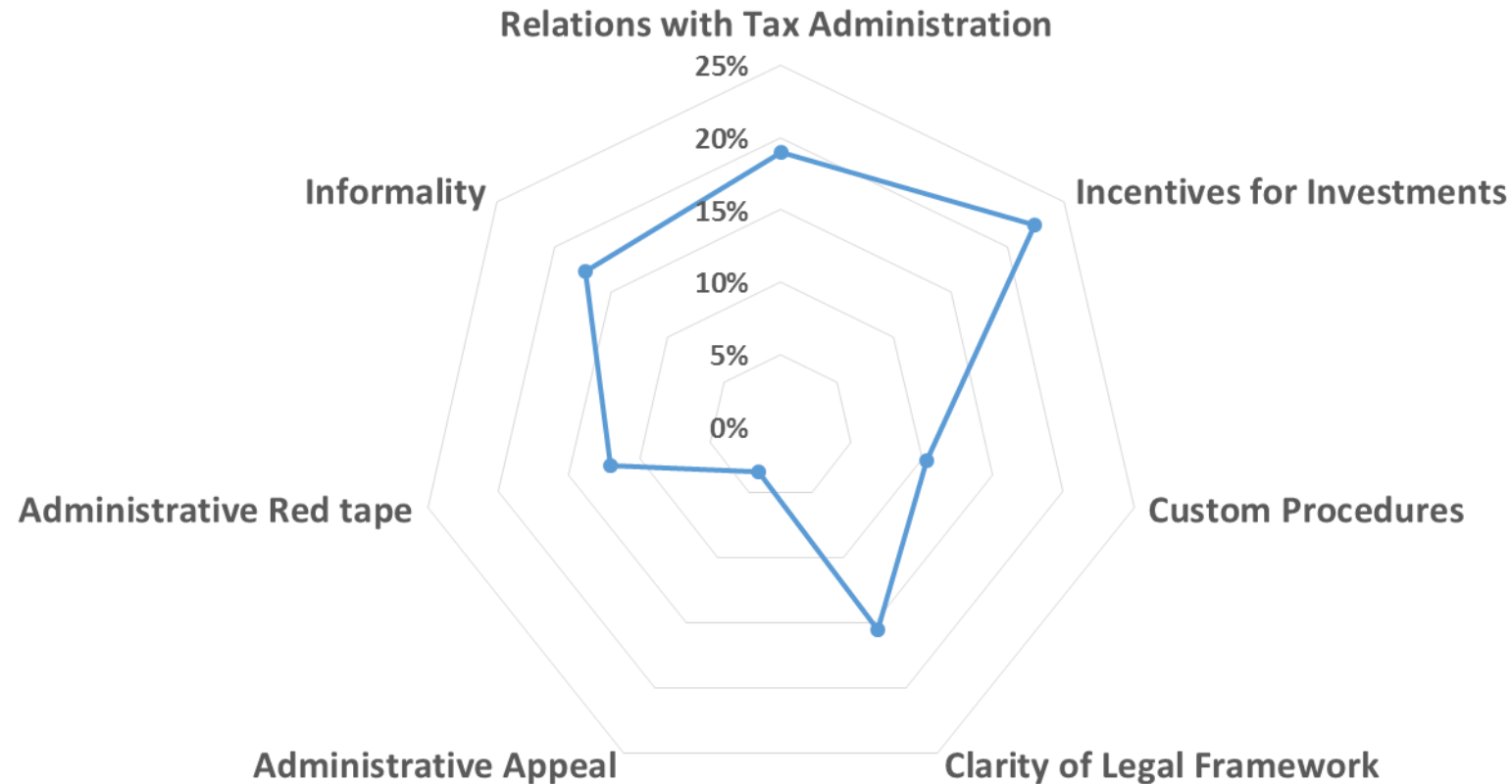
**Recommendation 6.** The reform launched in 2015, should be structured, efforts for the enforcement of anti-informality measures should be improved.

**Recommendation 7.** Business/Associations should build/increase further “their own capacities” in terms of receiving timely and accurate information regarding any changes that affect the environment they operate in.

**Recommendation 8.** Integration and consolidation of services of governmental agencies in the website e-Albania.

**Recommendation 9.** Ongoing and periodic trainings for the tax administration specific also for the VAT refund.

### III. CONCERNS ON INVESTMENT CLIMATE- SURVEY



**Recommendation 8.** The reform against informality initiated by the Government in 2015, to be further structured and strengthen the efforts in implementing the anti-informality measures.

# DISCUSSION ON RECOMMENDATIONS

- I. THE DEADLINES FORESEEN IN THE LEGAL FRAMEWORK ( although dynamic) ON VAT IS AMBITIOUS BUT:
  - a) ARE REALISTIC FOR THE TAX ADMINISTRATION?
- II. REDUCTION OF NUMBER OF AUDITS AND RISK MODULE EFFECTIVENESS
  - a) DUE APPLICATION OF RISK SYSTEM ( are there effective risk indicators for VAT Reimbursement? )
  - b) SUBJECTS ALREADY FULLY AUDITED HAVE TO BE UNDERGO AGAIN A VAT REFUND AUDIT?
- III. THE BUSINESS REMAINS NOT INFORMED IN THE RIGHT LEVEL
  - a) NEED FOR AN INTERNAL REGULATION ON VAT REFUND FOR TAX ADMINISTRATION
  - b) GDT WEBSITE MORE USER FRIENDLY

**THANK YOU!**  
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